Wealth Markets and Commerce

Finance - Economics

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One of the most interesting and at the same time important revelations of the last week in finance has been the intimation from high financial quarters that there is a point beyond which money market interest rates will not be permitted to go if the ingenuity and foresight of the banking community can prevent. It is realized, of course, that any pronounced rise in the rental charges on money will not only jeopardize the success of the government's loan operations, but at the same time work irreparable injury to the country's commercial houses, which at all times must be provided with a sufficiency of funds at reasonable rates. The governor of the Federal Reserve Bank of New York emphasized last week the necessity of keeping the ordinary day to day needs of business supplied with an abundance of credit. What was more, he asserted that the Treasury Department in arranging its financing was doing so with an eye toward reducing the pressure as much as possible on the commercial borrower who must have funds to keep the country's great industrial plant running.

Lord Cunliffe, governor of the Bank of England and member of the British commission to this country, in his talk with representatives of the New York press, told how Britain intends to work hand in hand with America in keeping money rates easy in this market. Gold is to be shipped to us as England can spare it. The movement has already started with the $48,000,000 in gold brought in from Canada last week, marking the resumption of the influx which halted the first week of April. The United States government is borrowing $5,000,000,000. Of this $3,000,000,000 is for the Allies. They must pay the same rate of interest the United States pays, so it is to their profit to keep interest rates down on this side. Moreover, the fact must not be lost sight of that if Great Britain and her allies are to obtain other billion dollar credits here, as is likely if the war goes on for another year, the basis for this credit, gold, must be expanded to meet the situation.

The immediate effects of the resumption of gold imports have so far not been reflected in the Wall Street money market, although the weekly statement of the Clearing House banks on Saturday indicated pronounced improvement in the cash position of the members, largely as a result of the fresh accessions of the metal. Money rates are unlikely to ease up much until the government completes its initial borrowing operation and the market has completely adjusted itself to the changed credit conditions. In fact, if rates are held at the prevailing levels without any further advance it will be an accomplishment worth while. The effect of the gold imports will not be felt much from day to day.

Money rates last week were established on a 4¾ to 5 per cent basis for time loans, while commercial paper discounts ruled at the latter figure. The hardening tendency was due to the withdrawal of many leading institutions from the market, owing to the demands of the government. Call money, on the contrary, was easier than in the preceding week, ruling around 2¾ per cent, and touching as low as 2. Compared with a year ago current rates for time loans secured by Stock Exchange collateral average 2 per cent above the level of one year ago. Local banks took occasion again during the week to exercise the rediscount privilege at the Federal Reserve Bank, the local reserve institution's statement for the week indicating an increase in discounts of approximately $3,000,000,000.

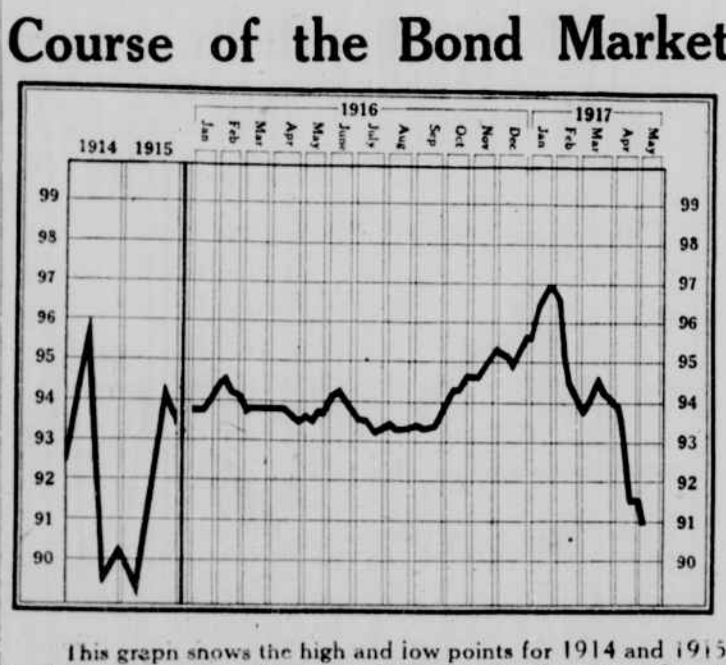
In his interview last week Lord Cunliffe told his hearers much concerning the international financial situation that was both interesting and important, not the least striking of which dealt with the matter of note circulation in England. His suggestion that the English public might, after the war, prefer the one pound and the ten shilling note to the hard money of the gold sovereign as a medium of circulation, after having experienced the convenience of the paper, pointed to the possible establishment of a new system of currency in England. The point is that when England finds herself in a position to redeem outstanding notes in gold and starts to do so she may find the public unwilling to go back to the old order. Lord Cunliffe said that apparently the people are satisfied with their notes and will not call for sovereigns, and if they do not call for sovereigns there will be no need to hold as much gold against them. In peace times the policy in England has always been to secure circulating notes with gold pound for pound. The French system of banking has never been unreservedly to exchange notes for gold.

Progress is reported in the campaign for distributing the $2,000,000,000 Liberty Loan of 1917, but the results still leave much to be desired. Failure of the Treasury officials to make public important details of the offering until last week unquestionably held back many prospective purchasers from entering their subscriptions. Now that all matters pertaining to the maturity, method of payment, etc., have been officially announced, the rate of incoming subscriptions should be greatly accelerated. Bankers continue to emphasize the urgent necessity of placing the bonds with the investor instead of with the banks if the offering is to be the success that is hoped. There is no doubt that such a distribution of the loan can be attained if proper efforts are made in the way of popularizing the issue. The lowest denomination, $50, is small enough for the smallest investor. That portion of the public unaccustomed to finance should be disillusioned of the idea that there is any mystery about the big loan. They should be told in the simplest possible terms how to buy the war loan, and why.

The general bond market experienced another week of dulness and decline. The average price of ten high grade investment bonds declined nearly ¾ point. The average of these issues is now at the lowest level since the middle of 1915. There has been persistent liquidation by institutions and individuals during the last week. Gilt-edged investment issues as well as the more speculative securities have been sacrificed to raise funds to buy the government's war loan. The bulk of the selling has taken place in railroad mortgage bonds. Foreign government issues and domestic municipal and state bonds did somewhat better than in the preceding week. The United States government 4s lost more than a point, selling at new low levels for the week.

There was much discussion last week regarding the rate of interest which the banks should charge their customers for carrying loans on war bonds. Some bankers hold that in order to make the loan a success and encourage subscriptions by investors of small means, credit should be extended at no higher a rate than the 3½ per cent interest which the bonds bear. The prevailing opinion, however, is that the market rate should be charged customers for loans against war bonds. It is pointed out that if investors knew their bank loans were being taken care of by the interest rate on the bonds there would be a temptation to let the loans run on, and it would be difficult for the banks to enforce the terms of payment.

Course of the Bond Market



This graph shows the high and low points for 1914 and 1915 in the average price of ten very high class bonds, nine railroads and one municipal, and the fluctuations from January, 1916, to date.

Will Turn Here for Capital to Unify Canada's Railways

May Need as Much as $100,000,000 Under Plan Devised by Royal Commissioners

By S. ROY WEAVER

Toronto, May 12.

WHILE nationalization and unification of all the steam railways in Canada, except the Canadian Pacific Railway and the American roads, will add about one billion dollars to the direct debt of the Dominion, not more than between fifty and one hundred millions of new capital will have to be sought in the money market to give effect to the recommendations of the majority of the Royal Commission which has been studying the country's railway problem. For this money, which will be required to place the government system on an efficient working basis, the trustees are expected to turn to New York.

The Commissioners have devised an ingenious method to finance the merger. There is not a single dollar of funded indebtedness against the 3,777 miles of railway in the National Transcontinental and Intercolonial lines already owned by the government, and it is proposed to create a general and refunding mortgage of unlimited amount, charged first upon the present government roads, and secondly upon all the remaining lines of the unified system, subject to the existing mortgages.

Security Adequate

The government railways have cost about $276,000,000, and the Intercolonial at the present time has a considerable net revenue which will be increased when the line is properly linked with a modern transcontinental system, so that adequate security will be provided with new capital. It is proposed that such a mortgage should be issued as required. The Commissioners believe that an express guarantee of the government would not be required, or, in any case, that such a guarantee would not be necessary in a comparatively short time. "A system of 20,000 miles in a rapidly developing country should be able, before many years are out," they report, "to carry unaided bonded indebtedness which would not, we estimate, need much to exceed $2,000 per mile."

The plan of transfer of the Grand Trunk Railroad, the Grand Trunk Pacific and the Canadian Northern Railway from private to national ownership contemplated leaving the bondholders practically undisturbed. The government will assume the obligations, and the security, therefore, will be increased. It is proposed that trustees appointed to take charge of the unified system should hold the Intercolonial and Transcontinental railways, by act of Parliament, as the legal owners of the physical property, and hold the Canadian Northern, the Grand Trunk and the Grand Trunk Pacific lines through their ownership of the capital stock. The government is in a position to force the surrender of such stock holdings under threat of allowing the roads to pass into receivership.

Generosity to Shareholders

The Commissioners recommend a policy of generosity toward the shareholders both of the Canadian Northern Railway and the Grand Trunk Railway. The government already owns $40,000,000 of Canadian Northern Railway stock, the remaining $60,000,000 being in private hands. These shareholders, say the Commissioners, have no claim as of right to compensation, but are entitled to consideration. It is suggested that the equity of the case would be met if the Canadian Northern shareholders were permitted to retain a moderate portion of the $60,000,000 of shares which they now hold, the amount to be fixed by arbitration. For the Grand Trunk Railway shareholders it is proposed that an annuity be granted, in amount "a moderate but substantial percentage of $3,600,000 (the average dividend payment for the last ten years)," this to be increased after the first seven years by something like 40 or 50 per cent.

The financial aspect of the proposed merger may be summarized as follows: The present fixed charges of all the roads which it is proposed to unify aggregate $4,000,000. This must be increased by $6,000,000 to provide an annuity to Grand Trunk Railway shareholders, for composition with Canadian Northern Railway income debenture holders, and for interest on new capital required immediately. Considerable new equipment is needed, and may be purchased by means of equipment trusts. In addition, a good many million dollars will have to be provided for improvements and betterments, some of which are urgently required at the present moment. On the other hand, very large economies are anticipated from the amalgamation of the Canadian Northern, the Grand Trunk and the Grand Trunk Pacific lines. As soon as time is allowed for the elimination of wasteful duplications such economies may at least balance the additional charges for new capital. The unified government system will face an annual deficit for at least two years of $12,500,000. In order to reach a position of solvency the gross income must be increased from something over $100,000,000 to more than $150,000,000, and one-fourth of such increase be retained as net income. The Commissioners believe that a gain to this extent is not improbable in the course of the next six or seven years.

Although some opposition is certain to develop, it is expected that the recommendations of the majority report will be adopted as the policy of the present government.

Government Needs 10,369 Tons of Zinc

Market Will Not Be Affected by Prices Named, Zinc Committee Says

The government's present requirements of zinc for war purposes total 10,369 tons, according to announcement made yesterday by the zinc committee of the advisory commission of the Council of National Defence. The committee, which sent a letter a week ago to zinc producers asking for offerings of slab zinc to supply the present needs of the government, divides the requirements as follows: Grade A, 6,703¾ tons; grade B, 3,440½ tons, and grade C, 225 tons, making the total previously given.

The prices named are 11½ cents, 11 cents and 9 cents, respectively, for the three grades, with protection against decline on grade C. These prices apply only to the tonnage specified, and in view of the small quantity of grade C (prime Western spelter) which is required the price named, the committee says, cannot have any influence upon the market for the metal, nor should it have any influence upon the prices of ores in the Joplin district.

Bank Law Amended To Aid Liberty Loan

Superintendent of Banks Calls Attention to Change

Albany, May 13.—A letter just sent to state banks and trust companies by the State Superintendent of Banks calls attention to the enactment of an amendment to the banking law which provides that such institutions shall not be required to maintain reserves against funds representing proceeds of the sale of bonds or certificates in connection with the Liberty Loan. The law is designed to stimulate subscription to the government war bonds. The letter reads as follows:

"To enable the banks and trust companies of New York State to subscribe to the fullest extent consistent with their resources for the Liberty bonds about to be issued by the United States government and to any other war issues that may hereafter become necessary, it has been proposed that the national government deposit with such institutions the proceeds of the sale of such bonds until such time as they may be needed by the national government. Such deposits by the national government in the national banks have been exempted from reserve requirements.

"In order to place the banks and trust companies of this state upon the same plane in this respect with the national banks, the Legislature of the state, acting under an emergency message from Governor Whitman, has passed an amendment to the banking law under which there can be deducted from the aggregate demand deposits against which state institutions are required to carry reserve, 'deposits due to the United States of America, representing the proceeds of the sale of bonds or certificates of the said United States known as the war loan of nineteen hundred and seventeen, or the proceeds of any other bonds or certificates of the United States hereafter issued for war purposes.'

"I deem it advisable to notify you immediately of this amendment, in order that you and your patrons may subscribe for these bonds as liberally as your condition and their circumstances permit, and thereby evince your loyalty to the national government in the present emergency."

Profits from War Risks

Results of operation of the large private British marine insurance companies for the first full year of the war, 1915, are now available. They are interesting, for they afford some idea of the amount of war risk business being written. The "London Times" of recent date devotes considerable space to a discussion of marine insurance and the war, in which it says:

"There are certain distinct differences between the present figures and these which were issued in peace time. First, war risks, which are usually written for each voyage or for quite short periods, are disposed of much more quickly than marine risks. An underwriter, therefore, who accepts a large amount of war business should shortly after the conclusion of the first year be in a better position to form a shrewd idea of what the results of this business should in the main be. Consequently, to this extent the first year settlements are a real indication of the final settlements, and by the end of the second year the complete results of war risk underwriting should be known.

"On the other hand, there is at present a contrary factor at work affecting marine risks in contradistinction to war risks. Owing to the absolutely unprecedented conditions, ships have been kept at work during the war as long as it was at all practicable for them to be at sea. This means that repairs have been deferred much past the usual time, and this will help to swell the third year settlements. Further, the cost of repairs has, of course, enormously increased. These two considerations together would naturally tend to make the third year settlements in respect of pure marine insurance much above the normal. It would, therefore, be quite impossible without close examination into the circumstances of each company's business to predict if the amounts put by to suspense will, or will not, be available in the present abnormal circumstances to meet all the demands which will be made upon them.

"Subject to these considerations, the figures in the following table are a guide to the actual profits on the underwriting accounts for 1915. They show, for seven companies whose accounts permit of analysis on the same simple lines, the net premiums, the actual earnings, after allowing for all claim settlements and expenses, and the sums put to suspense to close the accounts, and the percentage of the profit to the net premiums. These companies may be regarded as representative of the whole market. The premiums were largely increased, and the actual profit and the percentage must be reckoned as distinctly satisfactory. In every case the actual profit is increased, while in some instances the percentage is also higher. Thus the British and foreign earned an actual underwriting profit of $995,715, or 25.4 per cent, as against $533,855, or 21.5 per cent for 1915. The indemnity's profit of $802,660, or 15.4 per cent, compares with $523,400, or 16.9 per cent.

"The Merchants' figures of $326,265, or 20 per cent, compare with $263,335, or also 20 per cent. The Reliance earned $146,105, or 16.9 per cent, as against $125,600, or 18.3 per cent. The Sea's profit of $435,405, or 14 per cent, compares with $404,010, or 17.2 per cent. The Union recorded improved figures, with a profit of $851,210, or 15.3 per cent, as against $524,470, or 14.2 per cent. And the World showed also much improved results, with a profit of $460,565, or 23.9 per cent, as against a profit of $204,525, or 16.7 per cent, for 1914.

Surplus on 1915 Account

Company.	Net premiums.	Expenses.	Profits. Actual.	Pct.
British and Foreign	$3,921,840	$310,585	$995,755	25.4
Indemnity	5,216,695	100,485	802,660	15.4
Merchants'	1,633,815	99,425	326,265	20.0
Reliance	863,765	72,430	146,105	16.9
Sea	3,116,320	133,430	435,405	14.0
Union	5,559,770	230,750	851,210	15.3
World	1,926,180	41,420	460,565	23.9

"In the second table are set out the premiums accepted last year, the claims paid, and the percentage they bore to the premium. In each case the increase in premium income is striking, although the 1915 figures had, as a rule, been far larger than those for 1914. The British and Foreign increased its premium income by $1,238,675; the premiums of the Indemnity were raised by as much as $3,976,145; the Merchants', which is understood to have written little, if any, war risk business, increased its premium income by $631,230; the Reliance—an office which has been successful for many years in writing a small and carefully chosen account—raised its premiums by $283,315; the Sea raised its premium by as much as $3,167,665, whereas its whole premium income in 1915 amounted to $3,116,320; the Union by $1,395,500 and the World by $1,301,260.

"These are, on the whole, large increases, and it is to the credit of the London insurance market that underwriters have been willing to assume such enormous liabilities as are represented by these figures of premium incomes. The market has thereby undoubtedly vastly assisted the maintenance of commerce. It must be apparent to any one who studies even most superficially the weekly figures of British losses that nerve is needed to write lage war risk accounts. Neutrals have at all times been assured of being able to place their risks in the English market, which has consequently been in a position to reaffirm its value and preeminence.

First-Year Settlements in 1916

Company.	Premiums.	Claims.	Pct.
Brit. and Foreign	$5,160,515	$1,388,675	26.9
Indemnity	9,192,840	3,330,550	36.2
Merchants'	2,265,045	534,790	23.6
Reliance	1,147,080	296,645	25.9
Sea	6,283,985	2,473,550	39.4
Union	6,955,270	2,740,255	39.4
World	3,227,440	1,170,405	36.3

"The second striking feature in the table is that the percentage of settlement last year was in every case higher than in 1915. Thus, the British and Foreign settlement of 26.9 compares with 25.4 per cent in 1915; the Indemnity settled 36.2 per cent, as against 30 per cent; the Merchants' settled 23.6 per cent, as against 22 per cent; the Reliance settled 25.9 per cent, as against 23.9 per cent; the settlement of the Sea was 39.4 per cent, as against 31.2 per cent; the Union also settled 39.4 per cent, as against 38.9, and the World paid out 36.3 per cent of the premiums, as against 32 per cent in the previous year. These in the main would be heavy first-year settlements for ordinary accounts and would not promise much profit after the second and third year settlements have been made; but, happily, as has already been indicated, where war risks are written first-year settlements should naturally, owing to the fact that they 'run off' quickly, be heavier.

"It cannot be too strongly emphasized that in these days war risk underwriting is not 'child's play.' Those who assume big risks do so deliberately and after fully taking into account all the factors within their knowledge, but they have always been necessarily in the dark as to the intentions of Germany, while even to English underwriters the operations of the British navy in meeting the German submarine menace are shrouded in obscurity. It should be a matter of real congratulation not only to the insurance market, but also to the country generally, that so far underwriters appear to have come out well on the right side of profit and loss, and that there has been excess profit taxation to pay, for a large balance on the debit side could only have one result sooner or later—the closing of the market and the withdrawal of facilities which British, Allied and neutral ship owners and merchants have found of incalculable assistance in carrying on the commerce of the world."

Reflexes of War

Plans for demobilization of the German armies when the war ends are being prepared. According to information coming from Germany via neutral countries, the German Ministry of War will seek to prevent the creation of unemployment and to direct the flow of labor as rapidly as possible to industries and trades of the greatest importance. The demobilization will be gradual, and there is no definite provision as to its duration. The German army authorities are said to have laid down as a principle that no soldier is to be released until he has found work. Men who do not find work may be retained in the army for as long as four months, subject to the general principle that the older classes are to be released first, preference to be given to men belonging to any of the following nine categories:

(1) Leading personages in trade, industry, shipping and other economic spheres;
(2) The heads of commercial, industrial and agricultural concerns, and such of their employes as engineers, foremen and inspectors;
(3) Independent traders, farmers, etc.;
(4) State, provincial and communal officials, clergy, teachers and railway and tramway servants;
(5) Seamen and fishermen;
(6) Skilled workmen and artisans, provided that they are taking up definite employment;
(7) Unskilled workmen in employments which will immediately require large supplies of labor, such as mining, agriculture, overseas trade and docks;
(8) Students and persons who at the outbreak of the war were being trained for a profession; and
(9) Germans who before they were called to the colors were domiciled abroad, and wish to return.

Last year there was a shipping firm in Kobe, Japan, conducted by one of the largest funa-narikin ("war baby" or nouveau-riche), which paid a dividend of 500 per cent per annum. There have been few companies in any branch of trade and industry rivalling that dividend, but the same enormous rate of dividend has recently been declared by a paper manufacturing company in Osaka, the Nakanoshima Paper Mill Company.

More than ten companies have been started in Japan since the war began with the object of investing in foreign countries, according to the Japan Trade Bulletin. The principal concerns among them are the Oriental Trust and Guarantee Company, capitalized at 20,000,000 yen, a joint American and Japanese corporation whose object is the financing of China; the China Industrial Company, with a capital of 1,000,000 yen, aiming at investment in an electric lamp manufactory in China; the Oriental Trading Company, with a capital of 600,000 yen, a joint stock concern, hoping to promote Japanese trade with America and China; the South Sea Trading Company, with a capital of 3,000,000 yen, to engage in the shipping trade, mining and trust business with the Southern Pacific Islands, now under Japanese military occupation; the American-Japanese Industrial Company, promoted by Y. Okamoto, of New York, and others in Tokio and New York, with a capital of 5,000,000 yen, to engage in real estate business in New York; the Corean Cotton Company, with a capital of 5,000,000 yen, to engage in cotton plantation in Corea on a large scale.